

WHAT TO EXPECT IN AN AUDIT

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Georgia Department of Audits and Accounts
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Overview of the Audit Plan Objectives

Types of Engagements

Explanation of Auditing Standards – How do they affect you?

Risk Assessment and Documentation of Controls

Common Issues Noted in Audit Engagements

Tips for a Successful Audit

Questions?

PRESENTATION OVERVIEW

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EAD - AUDIT PLAN OBJECTIVES

To conduct work sufficient to render an opinion on the Higher Education component of the **Consolidated Annual Financial Report (CAFR)** encompassing the Financial Statements of the Technical College System of Georgia and its related units and the Statewide Single Audit.

Conduct work sufficient to evaluate the budgetary Financial Statements of the Higher Education component of the **Budgetary Compliance Report** – “surplus”

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DOAA - EDUCATION AUDIT DIVISION'S OBJECTIVES

TYPES OF ENGAGEMENTS



Types of Engagements

For Units of the Technical College System of Georgia, the Department of Audits will conduct the following types of engagements for Fiscal Year 2012:

- Agreed-Upon Procedures Reports
- Full Disclosure Management Reports (By-Product Report) for re-accreditation purposes
- Audits

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TYPES OF ENGAGEMENTS

Agreed-Upon Procedures

- Agreed Upon Procedures Reports
 - Auditors perform procedures that have been “agreed-upon” between the College, TCSG and DOAA
 - These procedures “assist in assessing the accuracy” of financial information (both Budget and GAAP) submitted to the Central Office
 - DOAA places no assurance other than the specific procedures performed

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TYPES OF ENGAGEMENTS

Agreed-Upon Procedures

TYPES OF ENGAGEMENTS

- **Agreed Upon Procedures Reports**
 - Examples of procedures
 - Balance Sheet items have supporting documentation and are reconciled to the general ledger
 - Worksheets submitted for the SRECNA agree to accounting records
 - Review of information submitted on the Cash Flows
 - Note Disclosures have been properly reported
 - Review of GAAP basis journal entries
 - Confirm State Appropriation revenues, receivables and remittances of prior year surplus

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Agreed-Upon Procedures

TYPES OF ENGAGEMENTS

- **Agreed Upon Procedures Reports**
 - Examples of procedures
 - Confirm that write-off requests for accounts receivable less than \$3,000 were approved by SAO
 - Review salaries and travel listings submitted to DOAA reconcile to financial statements
 - Review of budgetary statements and determine whether activity agrees to financial records
 - Review budgetary reserves to determine if properly documented, valid and appropriate

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Agreed-Upon Procedures

TYPES OF ENGAGEMENTS

- **Agreed Upon Procedures Reports**
 - Examples of procedures
 - Review HOPE reconciliation to determine whether information reported to GSFC agrees to financial records
 - Review Schedule of Expenditures of Federal Awards to confirm that information is properly presented and supported by accounting records
 - Review Capital Assets records to ensure that subsidiary ledgers are properly reconciled, capitalization thresholds are followed, and physical inventories are performed
 - Review bank reconciliations

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Agreed-Upon Procedures

TYPES OF ENGAGEMENTS

- **Agreed Upon Procedures Reports**
 - Report includes:
 - Letter summarizing results of DOAA procedures
 - Budget Schedules

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Full Disclosure Management Reports

TYPES OF ENGAGEMENTS

- **Full Disclosure Management Reports**
 - Many of the same procedures as AUP reports
 - Procedures also performed to review additional selected financial information requested by SACS-Commission on Colleges for accreditation purpose
 - DOAA places no opinion on whether the information is fairly stated
 - Report includes:
 - GAAP statements and Selected Financial Notes
 - Budget Statements
 - Findings or other items for management consideration

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Audits

TYPES OF ENGAGEMENTS

- **What makes an audit different?**
 - For AUP and FDMR engagements, no assurance (opinion) is given that the financial information is fairly stated
 - For Audits, DOAA places an opinion on whether the financial statements are materially correct in accordance with GAAP

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Audits

TYPES OF ENGAGEMENTS

- **Audits**
 - Report includes:
 - Full set of financial statements in accordance with GAAP (including MD&A)
 - Notes to Financial Statements
 - Budget Statements
 - Findings

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AUDITING STANDARDS – HOW DO THEY AFFECT YOU?



Auditing Standards

AUDITING STANDARDS

- We have rules to follow and are audited too!
- Our audits must be performed in accordance with auditing standards (SAS's)
- Peer reviews and internal quality assurance reviews are performed to ensure that our work is performed in accordance with these standards
- As of February 2011, there are 121 Statements on Auditing Standards that we must follow

These are our rules, but they also affect you...

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Key Standards

AUDITING STANDARDS

- BIG changes occurred in last few years:
 - “Risk-based” Suite of standards (SAS 104-110) completely changed our required audit approach
 - SAS 115 changed the required reporting of internal controls and other matters

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Risk-based approach to auditing

The “Risk-based” Suite of standards (SAS 104-110) requires us to perform audits using a “risk-based” approach

- Assess the risk of material misstatement to your financial statements
- Design audit procedures to mitigate this risk
 - We no longer may have a pre-defined audit program
 - Auditors must assess the risk and design their own procedures

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Risk-based approach to auditing

How does this approach affect you?

- Auditors must perform “Risk-assessment procedures” to determine the types of testing to perform – These procedures may require time of the accounting staff
- RBA requires “auditor’s judgment” and may lead to less consistency in methods and procedures among auditors - Many different ways to meet audit objectives and auditors may take different approaches

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Risk Assessment Procedures

Auditors must perform “Risk-assessment procedures” to assess the “Risk of Material Misstatement” (RMM)

To assess RMM, auditors must review factors beyond the auditors’ control:

- Inherent Risk - if no internal controls exist, how likely is the account balance to be misstated?
- Control Risk – What controls are placed in operation to mitigate the risk of material misstatement?

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Risk Assessment Procedures

Control Risk – What controls are placed in operation to mitigate the risk of material misstatement?

- Auditors must document the controls in place and **determine whether they are operating effectively**

In past we could rely on questionnaires and inquiry to document controls, this is no longer adequate. Auditors must review the controls over all significant processes.

We use walkthroughs of transactions and processes to meet this requirement.

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SAS 115 - Reporting of Deficiencies

AUDITING STANDARDS

If auditors detect control deficiencies while performing these procedures, the method of reporting is dictated by SAS 115

SAS 115 requires reporting of deficiencies noted in:

- Design of controls
- Operation of controls

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SAS 115 - Reporting of Deficiencies

AUDITING STANDARDS

Deficiencies in Design of Controls:

- A control necessary to meet control objectives is missing
 - Example – Bank reconciliations are not reviewed by someone other than the preparer
- A control is not properly designed so that even if the control operates as designed, the control objective is not met

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SAS 115 - Reporting of Deficiencies

AUDITING STANDARDS

Deficiencies in Operation of Controls:

- A control does not operate as designed
- The person performing the control does not possess the necessary authority or competence to perform effectively

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SAS 115 - Reporting of Deficiencies

AUDITING STANDARDS

Per SAS 115 - “The severity of a deficiency does not depend on whether a misstatement actually occurred.”

- We are required to report deficiencies in control even if a misstatement did not occur
- The level of reporting is based on the severity of the potential misstatement
- Based on the severity, we will report as an exit conference comment, management letter comment, significant deficiency finding, or material weakness finding

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SAS 115 - Reporting of Deficiencies

AUDITING STANDARDS

Note that compensating controls can limit the severity of a deficiency, but does not eliminate it.

SAS 115 still requires communication, even if compensating controls exist.

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS



Risk Assessment Procedures

Risk assessment for the auditors is different than your risk assessment requirements.

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Risk Assessment Procedures

Responsibilities –

- It is the auditor's responsibility to:
 - Review the controls over significant processes
 - Determine whether controls are placed in operation and operating effectively
 - Assess the risk of material misstatement to the financial statements and design audit procedures to detect material misstatements

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Risk Assessment Procedures

RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Responsibilities –

- It is management's responsibility to:
 - Assess risks to the entity's operations including risks due to fraud, error, or omission
 - Design and implement controls to mitigate these risks
 - Materiality is an auditing concept – Ask yourself **“What would make the paper?”**

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Risk Assessment Procedures

RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Why do we need strong internal controls?

- Protect yourself and your employees
- Protect your assets
 - From the time assets are received to the time they are booked
 - To the point in which assets are removed from your system/books

Controls are important whether you are an audit engagement or not!

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Internal Controls Defined

According to SAS 109:

“Internal control is a process—effected by those charged with governance, management, and other personnel—designed to provide reasonable assurance about the achievement of the entity's objectives with regard to reliability of financial reporting, effectiveness and efficiency of operations, and compliance with applicable laws and regulations.”

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Risk Assessment Procedures

What do I need to do?

- Assess the level of risk
 - Quantitative and Qualitative
 - Political
 - Local Newspapers
- Identify reasonable controls
- Determine cost benefit of controls
- Implement controls
- Document the controls and the performance of the controls
- Monitor the controls

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Risk Assessment Procedures

RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

RISK?

Fraud or Errors not Prevented or Detected

- Theft of Assets
- Payments to fictitious or invalid vendors
- Payments to ghost employees
- Mathematical / Data Entry Errors
- Unauthorized Transactions

So What Next??

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Risk Assessment Procedures

RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Identify what can go wrong, the likelihood it will, and the magnitude of the impact ...

- Process Mapping
- Resource Identification
- Key Points of Risk
- Cost vs. Benefit Analysis

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Process Mapping

Start with Identifying Significant Processes

Examples:

- Payroll
- Purchasing
- P-Card Transactions
- Receiving
- Capital Asset Maintenance

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Resource Identification

Identify your resources

- People
- Technology

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Key Points of Risk

Examples:

- Receiving Cash
- Approval/Authorization
- Adding Employees / Adding Vendors
- Establishing Pay Rates
- Data Entry Points
- Reconciliations

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Cost vs. Benefit Analysis

- Does the cost of implementing the control exceed the benefits?
- If costs exceed benefits, what alternatives or compensating controls can be used?
 - Example - cannot afford to hire new staff to fully separate duties

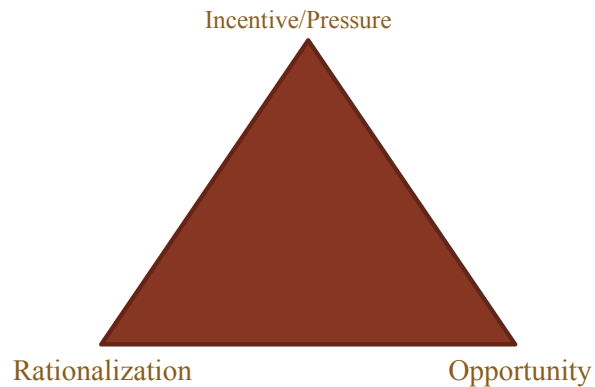
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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

FRAUD

The Fraud Triangle



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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

FRAUD

The Fraud Triangle

- Incentive/Pressure – factors affecting an employee which create financial need
- Rationalization – feeling that something is owed to them
- Opportunity – Access to assets

While incentive/pressure and rationalization are factors that may be beyond your control, a strong system of internal controls should prevent opportunity.

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

FRAUD

What is a key control to mitigate the risks associated with fraud?

Separation of Duties

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Separation of Duties

An employee should not **perform functions** which would allow the employee **to perpetrate** and **to conceal errors or fraudulent activity**.

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Separation of Duties

Implementation

Separate Functions of:

- Authorization
- Recording
- Reconciliation
- Custody of Assets

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Separation of Duties

Monitoring

- Day to Day Operations
- Changes in Business Processes
- Changes in Personnel

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Separation of Duties

Separation of Duties Matrix – see Handout

[SOD Matrix.xlsx](#)

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Components of Internal Controls

Internal control consists of five interrelated components:

- a. *Control environment* sets the tone of an organization, influencing the control consciousness of its people. It is the foundation for all other components of internal control, providing discipline and structure.
- b. Entity's *risk assessment* is the entity's identification and analysis of relevant risks to achievement of its objectives, forming a basis for determining how the risks should be managed.
- c. *Information and communication systems* support the identification, capture, and exchange of information in a form and time frame that enable people to carry out their responsibilities.
- d. *Control activities* are the policies and procedures that help ensure that management directives are carried out.
- e. *Monitoring* is a process that assesses the quality of internal control performance over time.

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Some common risks and tips are located on the handout:

[Why Do We Need Strong Internal Controls.doc](#)

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Accounts Payable/Cash Disbursements

Common Risks:

- Checks Processed by Unauthorized Personnel
- Payments Made Based on Invalid or Unapproved Invoices
- Payments to Fictitious or Invalid Vendors
- Misuse of Hand Drawn Checks

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Accounts Payable/Cash Disbursements

A good control system has these duties segregated:

- Setting Up Vendors
- Creating / Approving POs
- Processing Invoices
- Issuing Operating Checks

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Accounts Payable/Cash Disbursements

Examples of Controls:

- Access to Electronic Signature is limited.
- Review of Voided Checks
- Review of Voucher Packages
 - Purchase Orders
 - Invoices (Recalculation)
 - Receiving Reports
- Approvals Prior to Payment

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Accounts Payable/Cash Disbursements

Examples of Controls:

- Authorization for Creation of POs or Payment Request
- Review of New Vendors
- Payments /Encumbrances recorded on a daily basis
- Reconciliations

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Accounts Receivable/Cash Receipts

Common Risks:

- Misappropriation of Funds Prior To Posting to the Accounting Records
- Not Crediting Appropriate Accounts Receivable, Duplication of Revenue
- Diversion of funds to improper accounts

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Accounts Receivable/Cash Receipts

A good control system has these duties segregated:

- Establishing Bank Accounts In Entity's Name
- Receiving Cash
- Depositing Cash
- Recording Cash
- Reconciling Cash

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Accounts Receivable/Cash Receipts

Examples of Controls:

- Sequential / Pre-Numbered Receipts
- Separation Between Individuals Receiving Money (via mail or in person) and Individuals Posting to the General Ledger
- Separation Between Receiving Money and Depositing Money
- Establish number of days acceptable to hold receipts

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Accounts Receivable/Cash Receipts

Examples of Controls:

- Establish maximum amount of cash that can be held in vault
- Petty Cash Procedures
- Check-Cashing Procedures
- Reconciliations (including BANNER to Peoplesoft)

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Payroll/Benefits Disbursements

Common Risks:

- Theft Due to Ghost Employee
- Check to Terminated/Inactive Employee
- Unauthorized Payroll Changes
- Undetected Mathematical or Data Entry Errors Due to Lack of Oversight
- Manipulation of Withholding Balances

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Payroll/Benefits Disbursements

A good control system has these duties segregated:

- Setting up New Employees
- Setting up Direct Deposit Information
- Making Payroll Changes
- Processing Payroll Checks

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Payroll/Benefits Disbursements

Examples of Controls:

- Thorough Review of Initial Input
- Review Sample of Monthly Salaries
- Pay Adjustments Must be Approved/Reviewed By Payroll Director
- Calculations of employee Salaries Outside of System; Reviewed By Payroll Director

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Payroll/Benefits Disbursements

Examples of Controls:

- Payroll Reports Compared to Initial Salary Calculations
- Review of New Employees Added
- Distribution of Checks By Someone Outside of Payroll
- Review of Exception Reports

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Credit Card/Purchasing Cards

Common Risk:

- Circumventing Expenditure Controls

Examples of Controls:

- Strong Policy
 - Allowable Vendors By Department
 - Thresholds
 - Allowable Items
- Voucher Packages
 - Matching Receipts to Statement
- Monitoring
 - Electronic File By Cardholder

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Access Controls

Common Risk:

- Access Point
 - Doors to a System/Data Via Computers, Networks, Applications, Database
- Inadequate Separation of Duties
(Rights in System do not agree to established separation of duties structure.)

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Access Controls

Examples of Controls:

- Physical
 - Doors, Locks
 - Card Keys
- Logical –
 - Passwords (Alphanumeric, Expiration Periods, Lock-Out)
- Virus Protection
- Firewalls
- Patch Management

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Environmental Controls

Common Risk:

Loss of Data Due to Environmental Factors such as Power Loss, Fire, or Water

Examples of Controls

- Fire Suppression, Extinguishers, etc.
- Temperature Detection
- Moisture Detection
- Uninterruptible Power Sources or Generators

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Disaster Recovery Planning

Common Risk:

Loss of Data Due to Disaster. Disaster could include anything from loss of equipment due to viruses to loss due to tornado, flood, hurricane, or terrorist threats.

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Internal Controls Tip Sheet

Disaster Recovery Planning

Examples of Controls:

- Strong Policy Required
 - Consider:
 - Recovery Team and Contact List
 - Staffing assignments and needs
 - Identifying Critical Systems
 - Order of Restoration of the Critical Systems
 - Equipment Needs / Vendor Contacts
 - Alternative Policies and Procedures
 - Review Policy Periodically
 - Communication of Policy to Staff

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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

Risk Assessment Procedures

How do I document my Risk Assessment?

[Risk_Assessment_Documentation_vsn2011.xls](#)

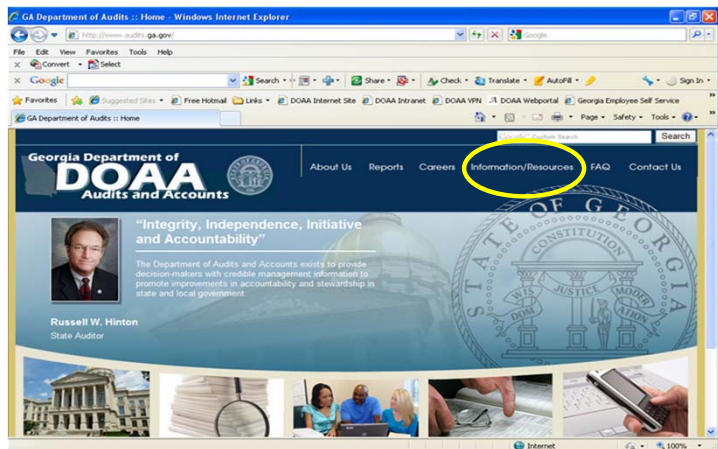
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RISK ASSESSMENT AND DOCUMENTATION OF CONTROLS

DOAA RESOURCES

<http://www.audits.ga.gov>



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State College, University, and Technical College Resources

Admission

Cash Flow Statement Checklist

Auditor's Request List

Operations Questionnaire

Risk Assessment Documentation

System Questionnaire

Technical Resources:

2010 Board of Regents Fiscal Year End Presentation

2009 Board of Regents Fiscal Year End Presentation

Administrative Division

Education Audit Division

Healthcare Audit Division

Information Technology Division

Nonprofit and Local Government Audits Division


Office of Quality Assurance

Performance Audit Division

Sales Ratio Division

State Government Division

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COMMON ISSUES NOTED IN AUDIT ENGAGEMENTS



First-time Findings

COMMON ISSUES

Examples of recent findings at colleges audited for the first time

- Bank reconciliations not performed in a timely manner
- Reconciling items on bank reconciliation carried for an extended period of time
- Reconciling items on bank reconciliation not properly documented
- Personnel had access rights to accounting system that exceeded need based on job duties

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First-time Findings

COMMON ISSUES

Examples of recent findings at colleges audited for the first time

- Bookstore inventory count sheets not maintained to document a complete and thorough inventory taken at June 30.
- A reconciliation was not performed between the bookstore inventory listing and the amount recorded on the general ledger.
- A software system used to record continuing education registration activity was not reconciled to Peoplesoft.

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First-time Findings

COMMON ISSUES

Examples of recent findings at colleges audited for the first time

- Inadequate separation of duties
 - Deposit preparation not separated from record keeping function
 - No supervisory review of cash drawer close-out process
 - Employees with the ability to post journal entries in Peoplesoft also performed duties such as bank reconciliations
- Salary changes made during the year were not properly approved

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First-time Findings

COMMON ISSUES

Examples of recent findings at colleges audited for the first time

- Capital asset physical inventory not performed
- Missing, obsolete, or scrapped capital assets items were included on the capital assets listings
- Capital assets subsidiary module not reconciled to amounts on the financial system
- Construction in progress associated with capital outlay was recorded in repairs and maintenance expense and not properly capitalized
- Material audit adjustments for financial statement errors proposed by auditors

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First-time Findings

COMMON ISSUES

Examples of recent findings at colleges audited for the first time

- Material capital assets maintained on the general ledger through journal entries and not in the Peoplesoft Assets Management module, therefore depreciation was not calculated
- The accounts payable subsidiary module in Peoplesoft was not reconciled to the General Ledger
- Amount shown as payable at June 30 actually cleared the bank before June 30, causing a significant misstatement between Cash and Payable

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TIPS FOR A SUCCESSFUL AUDIT



Disclaimer....

This is a general overview of what to expect when being audited. Because the risk-based auditing standards no longer allow for a pre-defined audit program, your auditor may choose different approaches to audit procedures.

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TIPS FOR A SUCCESSFUL AUDIT

Items to consider...

Subsidiary Module reconciliations to the general ledger (BANNER, Asset Management, Account Payable, Employee Compensation, etc.)

Supporting documentation for all balance sheet items on the financial statements (Detailed Listing)

Show evidence of Journal entry preparation and approval

Segregation of Duties

Journal Entries

Bank Reconciliation

Accounts Payable

Employee Compensation

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COMMON ISSUES

Proper period cut-off

Watch transactions near June 30th to ensure that they are recorded in the proper period. This is an area where auditors often find misstatements.

- Be careful with holding books open
- Cash disbursements made before June 30th should be recorded as payables, not as a cash reconciling item
- Payments for items made in June could be prepaid items
- Encumbrance Payable \neq Accounts Payable
- Contracts payable for invoices received in July, but work performed before June 30th

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TIPS FOR A SUCCESSFUL AUDIT

Cash

Auditors may:

- Confirm bank balances
- Trace outstanding reconciling items to bank clearance in subsequent year
- Test validity of reconciling items
- Test to see if reconciled balances agree to financials
- Walkthrough the reconciliation process

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TIPS FOR A SUCCESSFUL AUDIT

Cash

TIPS FOR A SUCCESSFUL AUDIT

During the walkthrough process, auditors will need to see evidence of the controls over bank reconciliations.

- Document approval/review through sign-offs or initials
- Document timeliness with dates

The auditors will need to see evidence of the controls in place. Inquiry alone is no longer sufficient.

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Accounts Receivable

TIPS FOR A SUCCESSFUL AUDIT

Auditors may:

- Test validity of significant receivables
 - Look for receipt in the subsequent period
 - Look for documentation of receivables still outstanding at the time of field work
- Review student receivable listing
- Review uncollectibles listing and support for the allowance for doubtful accounts
- Test whether the Peoplesoft AR module is reconciled to the financial statements - Significant reconciling items not maintained in AR module could indicate poor controls.

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Bookstore Inventories

Auditors may:

- Observe the year ending inventory count – if the timing allows
- If the physical inventory count cannot be observed, it may be necessary to take the current balance and use documentation to see if the balance at 6/30 is correct
- Recalculate inventory balances – have available purchases and sales information

Maintain evidence of your physical inventory count near June 30th. Reconcile the physical count to the inventory recorded on the financial statements.

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TIPS FOR A SUCCESSFUL AUDIT

Capital Assets

Auditors may:

- Perform a physical sample of asset items to verify existence of assets or to look for missing or obsolete items
- Ask for evidence of asset ownership (deeds, titles)
- Look for uncapitalized asset purchases through review of expenditures such as repairs and maintenance
- Review depreciation expense calculation and the reasonableness of remaining useful life of assets
- Trace capital assets additions to supporting invoices or other documentation and determine whether capitalization policy was followed

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TIPS FOR A SUCCESSFUL AUDIT

Capital Assets

- Variances between the Peoplesoft AM module and financial statements should be reconciled and documented
- Significant assets not maintained in Peoplesoft AM could be an indicator of weak controls
- Review capital items to ensure whole systems or projects are capitalized, even if individual items are below the capitalization threshold
- Maintain documentation of physical inventory
- Remove obsolete or disposed assets from listings
- Watch out for contracts/retainage payable – be sure to include in construction in progress

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TIPS FOR A SUCCESSFUL AUDIT

Accounts Payable

Auditors may:

- Test the validity of outstanding payables by tracing to payment in subsequent period
- Review subsequent year payments for unrecorded payables with invoice dates and/or services provided before June 30th
- Ensure that detailed listings are maintained to support accounts payable balances

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TIPS FOR A SUCCESSFUL AUDIT

Accounts Payable

- Be aware of the proper period for expenditures - GAAP and Budget basis are not necessarily the same.
- Reconcile the Peoplesoft AP module to the financial statements. Be prepared to document reconciling items
- Significant payables not maintained in Peoplesoft may indicate a control weakness

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TIPS FOR A SUCCESSFUL AUDIT

Leases

Document the determination of the type of lease. A lease is capital if one of the following criteria are met:

1. ownership of the property is transferred by the end of the lease term
2. The lease contains a bargain purchase option
3. The lease term is equal to 75% or more of the estimated economic life of the leased property.
4. The present value of the minimum lease payments equals or exceeds 90% of the excess of the fair value of the leased property

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TIPS FOR A SUCCESSFUL AUDIT

Tuition and Fees

- Document that Banner data was properly entered into the Peoplesoft system for reporting
 - Show evidence of review and reconciliation
- Maintain documentation of the numbers used in the scholarship allowance calculation
- Document prepaid tuition and fees (Deferred Revenue) by student
- Provide tuition and fee schedules for recalculation by auditors

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TIPS FOR A SUCCESSFUL AUDIT

Banner System Testing

- Peoplesoft is tested for the state as a whole
- The Banner system controls will be tested by your individual auditors
 - Will test access controls such as passwords
 - Terminated users should not be in the system
 - Beware of accounts shared by multiple users

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TIPS FOR A SUCCESSFUL AUDIT

Other Common Issues Noted in Audit Engagements

Reconciliation of Salary and Travel amounts reported on the F/S to information submitted to DOAA

Inadequate Maintenance and Monitoring of Federal/State Grants and Projects

Agency Funds/Deposits Held for Other Organizations not properly maintained

HOPE Reconciliation

Inadequate Collection Procedures for Tuition and Fees



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COMMON ISSUES

Other Common Issues Noted in Audit Engagements

SEFA Information not reconciled

Financial Statement Errors

Incomplete Risk Assessments

Violations of State Purchasing Guidelines/P-card Purchasing Guidelines

IT General Control Issues

Overpayments of Student Financial Aid



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COMMON ISSUES

Request List

[2011 Updated Auditors Request List.xls](#)

TIPS FOR A SUCCESSFUL AUDIT

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Conclusion

Questions?

CONCLUSION

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